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JAPAN'S INTENTIONS TOWARD LATIN AMERICA

Case Study by MALCOLM R. BARNEBEY

DEPARTMENT OF STATE A/CDS/MB

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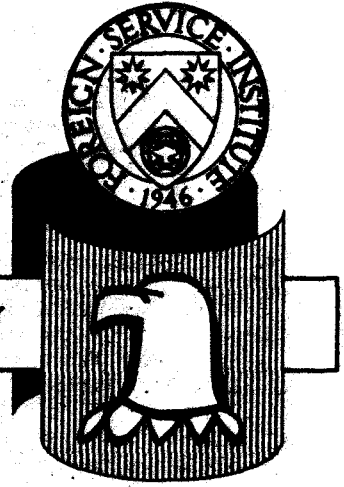
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FIFTEENTH SESSION

SENIOR SEMINAR IN FOREIGN POLICY

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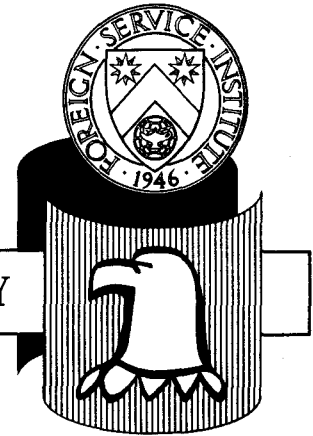
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FOREWORD

This study -- including the interviews with the individuals listed in Annex II and access to published materials which have provided the basis for the study -- resulted from my Senior Seminar-sponsored trip during the first three weeks of April to Japan, Brazil, Peru and Panama. I am grateful not only to Ambassador Samuel D. Berger and the Senior Seminar for the opportunity to test out some ideas on Japanese-Latin American relations, but also to Foreign Service colleagues in the four countries visited who made excellent arrangements for my contacts with Japanese, Latin American and other sources, which enabled me to obtain a great deal of information on the subject in a limited amount of time.

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DISCUSSION

The world has witnessed Japan's recent economic miracle with frank astonishment, not unmixed with concern over Japan's aggressive and keenly competitive new role in world trade, overseas investment and finance. The world has also seen a remarkable degree of coordination emerge between the Japanese Government and Japanese business firms, sometimes referred to as "Japan, Inc.", which has facilitated the economic penetration of, first, the Far East, and in more recent years every continent on the globe.

An increasing part of the tremendous energy generated by Japan's economic explosion is being directed toward all the countries of Latin America. When I asked a number of Japanese Government and private sector leaders to rank Latin America with other world regions in terms of their economic importance to Japan, they generally responded that the United States is first and foremost and must remain so for many years to come; that the Far East and Europe are highly important; that the PRC and USSR are of great potential importance; and that Latin America would rank with the Middle East (where of course oil is the paramount issue), and definitely ahead of the economic importance of Africa. As these rankings indicate, and particularly since Latin America is still a relatively new area for Japanese economic operations, increasing attention is being paid to the area in Japanese governmental and business circles. Other more finite and conclusive measures of the level of interest are to be found in trade statistics, in figures on announced and planned investment, and in public statements by Japanese leaders. Much more will be said in this paper on these topics.

Within the Latin American region the Japanese are clearly concentrating their attention and large-scale efforts in Brazil, and to a lesser extent in Mexico. They characterize both countries as politically stable, with excellent prospects for new investment ventures and increased two-way trade. Some of my informants also noted the political stability and favorable investment climate in Venezuela and Colombia; others pointed to the mineral and oil prospects of Peru; and some mentioned Argentina's possibilities, but lamented that country's political uncertainties. Moreover, there is some degree of Japanese interest in every single Latin American country. Trade, particularly exports to Latin America, has increased (see Annex I); investments and long-term financing arrangements are being made in many countries for infrastructure and resources development; and, in general, the Japanese presence is becoming increasingly marked and the scale of their economic involvement is increasing at a rapid rate.

Why is Japan devoting so many man-years of attention, and investment and long-term loan funds, to Latin America? Is it merely a function of Japan's worldwide drive for increased exports, access to raw materials, and profits from existing and projected overseas investments? Certainly from all I have heard in talks in Japan and three Latin American countries the Japanese motivation is entirely and exclusively "economic," at least as can presently be foreseen. However, even more intriguing to me, at this juncture, are the questions, (1) how far do the Japanese themselves expect to be able to go in trade, investment, etc. in Latin America in the next several years, and (2) how soon -- not whether -- nationalistic pressures are going to limit this increasing Japanese economic build-up. With a limited Japanese presence to date,¹ and so far with no "Ugly Japanese" allegations such as have been made in the Far East, Japan's batting average has been remarkably high. For example, not a single Japanese company in Latin America has so far been nationalized. Some problems have arisen, as over the reluctance of Japan to take

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increasing quantities of coffee and bananas from Central American countries and Colombia, and Uruguay's seizure and fining of two Japanese fishing boats a few weeks ago. Another type of problem, which Japan has experienced with at least two of the more volatile Latin American republics, is that of over-expectations of what the Japanese can or will be willing to do by way of economic aid. The question, then, concerns Japan's ability to enter and work smoothly, and keep on working, in countries whose nationalistic sensitivities are acute and where vivid memories remain of stormy relations with U.S. and European economic interests.

The Japanese have proved to be quite innovative and flexible in mounting their economic offensive in Latin America, just as in every other part of the world. They have, of course, travelled the familiar routes of trade and investment to open up new or increased ties with Latin American nations -- but with some new twists which are described in succeeding paragraphs. They have provided some economic aid to Latin America, but only to a limited extent compared to other programs of bilateral or multilateral aid. They have extended some grants for advanced-level training in Japan, and are continuing to carry out a modest cultural program. In the area of government-sponsored trade promotion they have occasionally staged trade exhibits, the most recent one having been the Sao Paulo trade fair in March attended by more than 300,000 persons. The Japanese Government and business sector have sent great numbers of missions to Latin America -- not resorting to what I would characterize as the usual shotgun approach of the U.S. Department of Commerce-sponsored trade missions, but rather sending policy-level and technical-level missions targeted on specific export or investment opportunities. No one who has closely observed the Latin American scene in recent years can doubt the seriousness of purpose and the organizational drive of these seemingly ubiquitous missions. The number and variety of these missions defy ready cataloguing; illustrative examples are the recent Keidanren-sponsored visit (Japan's Federation of Economic Organizations) to Brazil and other countries; the Japan Chamber of Commerce and Industry visit to Argentina, Brazil, Peru and Mexico late last year; a visit last year to Peru and other countries sponsored by the Ministry of International Trade and Industry; and visits by senior executives of many of Japan's principal trading companies to countries in which they either now have, or project to make, substantial investments or long-term lending arrangements.

In the area of trade, of course, there has long been a significant two-way flow between Japan and Latin America. However, the sharp increase of the last few years, as shown in the 1970-72 comparison in Annex I,² represents several new initiatives on the part of the Japanese. For example, at the same time as the Japanese increased their exports to Central America, including essentially taking over the automobile sales market in the mid-1960's, they contracted for substantially increased purchases of Central American cotton, bananas and coffee. Indeed the principal factor impeding substantial increases in Japan's trade and investment in Colombia, I was told, is Japan's highly favorable trade balance, which Colombia reportedly wants resolved by Japan's acceptance of considerably larger volumes of coffee and other products. Japan is running sizeable trade surpluses with an already large, and increasing, number of Latin American nations, and strains are bound to develop -- as they already have over Costa Rica, coffee and Honduran bananas exports to Japan -- as these trade

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surpluses increase. Another area where such pressures may mount in the not too distant future is the Caribbean countries, where so far Japan has found little to import save Cuban sugar in return for its sales in the region. The Japanese Government is perhaps remiss in not having focussed more on this sub-region. I understand that Japan so far only has resident diplomatic missions in two of the countries there, Cuba and the Dominican Republic; however, I also understand that diplomatic relations with the remaining countries are now under active study. What will remain is for Japan to make commitments to purchase more of the Caribbean countries' production, and to enter into investments for that sub-region's development.

Many examples of Japan's flexibility in enhancing trade can be cited. One is the recent Japanese offer to undertake a major construction project for a pelletizing plant in conjunction with a U.S.-owned mining complex in southern Peru, with the loan to be repaid either by the U.S. company or by the Peruvian Government. The result, as the Japanese see it, is that the project will increase Japan's access to immense tonnages of Peru's iron ore and pellets. Another example is a turn-key construction project for an oil refinery for the Peruvian state petroleum agency at Talara; although this refinery is only to produce for the Peruvian domestic market, Japan is building good will with the very agency which will be deciding to whom Peru will be sending its prospective surplus oil. Still another example, also concerning Peru, concerns a proposed \$300 million contract with Petroperu for a pipeline to carry Peru's crude from the newly discovered oil field in the Amazon headwaters country to the Pacific coast (and for oil exploration work in the area of that discovery). This loan, which of course has other potential benefits to Japan, is being made primarily so as to assure deliveries to Japan's awaiting tankers.

These three examples demonstrate the scale and intensity of Japan's interest in Latin America's raw materials, and what Japan is willing to commit itself to do to assure its access to such resources.

By far the largest commitment Japanese interests have made has been for the development of resources in Brazil. An "export corridor program" has been funded as a major collaborative effort by the Japanese and Brazilian Governments, together with private sector participants in both countries. A loan of \$200 million for this program was approved in December by a consortium of 24 Japanese banks, and was disbursed to the Brazilian Government in March. Additional loans totalling \$56 million have recently been made for expansion of the Ishikawajima-Harima Heavy Industries shipyard at Rio de Janeiro, and for the cost of locally obtained resources and services for the export corridor program. Specific construction to be accomplished under the first two phases of the program include deepening and improving the ports of Rio Grande, Paranagua, Vitoria and Santos; there is also to be upgrading of railroad rolling stock and rails, and construction of new spurs, for railroads to these four ports. Warehousing and refrigeration facilities are also contemplated as a part of this huge program. Moreover, an additional \$100 million suppliers' credit is under discussion, and a study is underway for a projected third phase of the program. The stated purpose of the export corridor program is to expand Brazil's exports, and Japanese firms are particularly interested in Brazil's agricultural crops such as soybeans, corn, sorghum, meats and vegetable oils,

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and also in Brazil's increasing exports of mineral concentrates. Also under this program it is hoped that exports, including manufactured goods, can be encouraged for sales in the U.S., European and African markets.

The characteristics of the \$200 million loan for the export corridor program may be worth a few additional lines. Described to me as a "buyers' credit," the loan apparently can be used by the Brazilian Government as it sees fit, presumably if not expressly for expenses connected with the export expansion program. I was told that the "buyer," in this case the Brazilian Government, can use the funds for Brazilian goods and services, and -- at least technically -- their use for overseas purchases is untied. I asked if such a "buyers' credit" could properly be described as a budget support loan, and the response was affirmative. If the explanation of the "buyers' credit" given me is accurate, then I must conclude that the Japanese have come up with a very flexible type of credit indeed. ³

Another variant for assuring Japan's access to raw materials is the "develop-and-import" system. This system, most prominently used in South Asian countries and Australia, calls for investments and technical assistance ⁴ for an entire production facility, including, say, development of a mine property, transportation and storage facilities, a port authority, and technical assistance to local producers and/or joint venture partners. One illustration of this technique is a fishing project in Surinam. While I have little information on this project, I understand that Japanese interests have built refrigeration and other facilities for their fishing fleet operating off the Surinam coast, and have provided technical assistance to local fishermen so that they too can work the fishery using modern techniques and equipment. As the Japanese see the project, harmonious relations are thus maintained with the local government and fishing industry, and Japan has another assured source of supply for its consumers' needs.

Other "develop-and-import" products are in the negotiation stage with Latin American Governments, and I was told that at least one of them, the Las Truchas iron ore project in Mexico, seems likely to be realized. This project, to give some measure of the vast scale on which the Japanese are planning, calls for construction of a deep-water port, a railroad, and removal of the overburden to make possible the development of this projected open-pit mining operation. Negotiations are also underway for deep port construction at two other Mexican port cities, Mazatlan and Manzanillo, which projects possibly also could lead into "develop-and-import" schemes. (Another outright purchase was just announced in the press regarding a major salt deposit and treatment and loading facilities in Baja California; however, in this case Japan had already been buying the entire output of the property, and the purchase apparently does not imply any new or greatly increased Japanese economic activity in the area.)

A more familiar type of investment is that in joint ventures. Japanese firms have long been engaged in forming new companies with local partners, or buying into existing companies. The noteworthy point, however, is the recently accelerated trend toward making such investments. This is most clearly the case in Brazil, where Japanese investors have recently been flocking with plans -- and funds -- in hand to take part in that country's great economic boom. There are,

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of course, some Japanese investments in Brazil dating from prior times which could qualify as joint ventures, the largest two examples being the Usiminas steel mill and the Ishikawajima-Harima shipyard. (The latter company, by most definitions, does not constitute a true joint venture, since local participants control at most 5% of the company, and I would imagine its Brazilian president must have to keep clearly in mind who controls the other 95%.) But there are also new, genuine joint ventures involving Japanese and Brazilian participation on a considerable scale -- investing in everything from food processing plants to minerals development to office building construction. One reliable source described the process by which many of these joint ventures emerge. He said that typically a Japanese firm will buy into an existing Brazilian-owned business to the extent of 15 to 25% of its equity. This way the Japanese partner can draw upon, and rely upon, the know-how and acceptance on the local scene of the Brazilian owners and managers; also, while the Japanese partner will not actively seek majority control of the business it will be willing in due time and if so requested to buy up the Brazilian partners' shares. While in Brazil I heard one other comment, which I cannot vouch for but merely report, on the "buying-in" process, namely that the Japanese partner usually insists that a Japanese trading company handle all of the firm's international trade transactions, and thus the Japanese interests receive, say, 25% of the profits of the joint venture and 100% of the profits deriving from its export-import operations.

Japan's other types of economic relations in Latin American countries are somewhat more difficult to classify. Certainly there are wholly-owned companies, producing for export and/or for the domestic market (and possibly for markets of neighboring Latin American countries). There are such investments in Brazil, Mexico, Peru and no doubt in a number of other countries as well. There are Japanese-owned assembly plants, such as those in the free trade zone in Panama and the automobile assembly plants in Mexico, Peru, Brazil and other countries. Japanese banking firms are also establishing branches in the principal Latin American cities.

One major category of Japanese firms' activity is their bidding, frequently successful, for financing and carrying out major engineering and construction contracts. I have mentioned the \$300 to \$350 million Peruvian pipeline project; a similar project could be for a gas pipeline from Bolivia to the Brazilian coast (for Brazilian sales and export to Japan). A major five-year railroad improvement program for the Argentine state railway system is to be launched by a Japanese firm at a cost of some \$200 million. Still another example is the financing, design, and construction of several ground satellite stations in Latin American countries. In this case the Japanese Government, apparently acting contrary to the terms of a prior international agreement on the subject, has provided concessionary loan terms so as to help land these contracts for the Japanese bidders.

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These, then, are the principal techniques being employed by the Japanese Government and private sector for the economic penetration of Latin America. It need hardly be said that the Japanese are highly skillful and competitive in these endeavors, just as they have proved to be the world around. But there are limitations as well as to what the Japanese can aspire to accomplish in Latin America, and in this regard I will no more than mention one of the key factors, the predictably intense future competition to be mounted by U.S. and European traders and investors, and to a lesser extent by those of the stronger Latin American countries.

Instead, what I want to call attention to are the regulations already enacted or to be enacted, and above all the attitudes of the Latinos, which may -- and I believe will -- limit Japan's role in Latin America. As long as Japan was merely a modest-scale trading partner, assuming the trade balance did not tilt too far or too long against the Latin Americans, and while Japan was still a potential rather than a real major investor in the area, then all was sweetness and light. Now, however, as Japan takes on a far greater role in trade, natural resources development, investment in manufacturing, and so on, the picture may be changing and the Japanese may be in for difficult times.

One aspect of this potential problem is shared equally by Japanese and all other foreign investors. For instance, the Andean Group's investment code calls for Latino majority control for most investments within a stated number of years. Brazil's decrees of last year also apply equally to all foreign investors, requiring the hiring of at least two-thirds Brazilian employees and giving tax incentives only to foreign investments which result in exports rather than those for production for Brazil's huge and increasingly prosperous domestic market. President Echeverria has long since announced his "mexicanization" guidelines. Other decrees and regulations will undoubtedly come along as well, but as long as they are reasonable and non-discriminatory should not unduly inhibit either Japanese or other foreign investment.

An increasing problem for the Japanese, contrasted with other investors, may come when internal nationalistic pressures begin building up against their newly influential -- even preponderant -- economic role in the Latin American economies. It is one thing to control a single copper complex in Chile; it would be quite another if Japan were to develop several of the largest copper mines of the country and were to come to have, say, the one-time power and influence of the recently nationalized U.S. copper companies. Japan may keep control of two fishmeal companies in Peru (no further foreign ownership of such companies is now permitted); it would be far different if Japan were to become much more active than at present time in the fishing grounds off Peru's coast. Only a few weeks ago two of Japan's fishing boats were seized 80 miles off Uruguay's coast; it is not hard to imagine a confrontation industrial fishing fleet operations within the 200-mile zone claimed by most Latin American nations.⁶ In Brazil I was told some objections are being raised to the Japanese buying into existing Brazilian held

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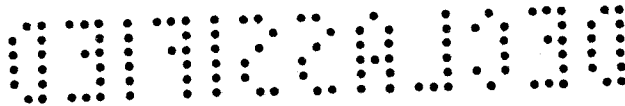
companies (although new investments remain welcome). In Peru I was told that the Peruvian Government strongly supports Japan's role with respect to the Amazon-to-Pacific pipeline and oil exploration, but has some reservations as to how active the Japanese should be in developing Peru's copper and iron ore deposits. I have already mentioned the concern of some of the countries producing tropical agricultural commodities over Japan's reluctance to accept substantially greater volumes of such commodities.

Another potential limiting factor concerns the size of the Japanese presence and the activities, on and off the job, of its businessmen and technicians. One would have thought that given the cautious, discreet and even austere demeanor displayed by so many Japanese this could not predictably have become a problem; however, just this problem has surfaced in Thailand, Indonesia and other Far Eastern countries regarding so-called "ugly Japanese" actions and attitudes. One Japanese source told me that it is a good thing that Japan has no navy far from its shores, for "if a country in the Far East had had these problems with our businessmen and saw a Japanese destroyer standing off its coast, then it really would suspect our intentions." While I frankly doubt that Japanese businessmen will make any such mistakes in their dealings with Latinos, nevertheless the latter are extremely sensitive and resentful toward any foreigners with real or imagined prepotente attitudes and I think Japanese Government and business leaders will have to keep this fact in mind. I also have reason to believe that the Japanese Government has just recently passed just such a message -- at least regarding the Far East problem -- to business leaders in the form of the by-now famous "administrative guidance".

Another type of limitation on Japan's room for maneuver in its economic relations derives from its government-to-government relations, notably those with the United States but also with the individual Latin American countries. Some of the Japanese leaders with whom I talked said frankly that U.S. Government views must be taken into account as they look toward expanding economic relations in the United States' "backyard". A major example is Japan's economic ties with Cuba, and the cases of Chile and Panama were also mentioned. A different case concerns Japan's desire to purchase more sugar from nations in and around the Caribbean basin; in this case some of the producing nations do not want to jeopardize their present and future access to U.S. sugar quotas by selling now to Japan.

Regarding relations with individual Latin American countries Japan runs the continuing risks of having to deal with excessive or otherwise unrealistic expectations. Japan has had to turn down at least two appeals for substantial assistance in the recent past, and given Japan's new status as an economic superpower more such requests can be expected. What the medium- and long-term results will be due to these refusals must worry Japanese policymakers, and also Japanese businessmen with ongoing or projected operations in those particular countries.

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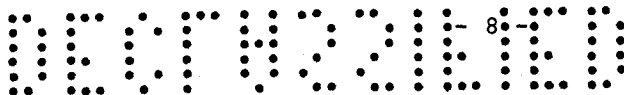


Conclusions

1. While Japan's vital interests must lead to heavy concentration on its relations with the United States, the Far East and Europe, and the PRC and USSR, Japan also has important economic interests at stake in Latin America, the Middle East, and Africa. In other words Japan's role as an economic superpower now requires that its government and business leaders build close ties with those countries throughout the world on which they must rely for access to needed raw materials and where there are substantial and increasing markets for Japan's exports. In the case of Latin America this means that Japan will probably try to help develop and keep access to the mineral ores of Mexico, Brazil, Panama, Peru and Chile. Japan will likely also strive to develop Peru's new oil find, and to outbid other countries for Ecuador's crude deliveries. And Japan will likewise work to assure increasing imports of agricultural commodities from Brazil, Mexico, Central America, Cuba, and other countries.

2. To assure continued supplies of these commodities -- and to increase even further the already substantial two-way trade with Latin America -- the Japanese conglomerates, with the help of the Japanese Government, are now beginning to invest heavily in the development of natural resources and the export facilities needed to get the raw materials to their awaiting freighters and tankers in Latin American ports. These new investments are concentrated in Brazil, and to a lesser extent in Mexico. But investments are also being made in the other countries as well. Long-term loan financing for natural resources development and infrastructure development, some of it assisted by Japanese Government financing at less than commercial rates, is currently being made available to many Latin American countries. The potential amount of these investments and long-term loans runs -- by statements of Japanese Government and business leaders themselves -- to several billion dollars for Brazil alone in the 1970's, plus some billions more for the rest of Latin America.⁷ If they have not already reached this ranking, the Japanese will soon be the second largest investor and lender in Latin America, and though I very much doubt it they could possibly overtake the United States in this regard by 1980 or 1985.

3. Like all other investors and lenders, Japanese businessmen are looking to the long term, and this is true as well for the Japanese Government. The individuals I interviewed in Japan almost to a man stressed their interest in Brazil and Mexico as countries with stable political systems and a favorable investment climate. Other countries, such as Venezuela and Colombia, were also rated well by this same yardstick, but others were singled out for expressions of concern over prospective political problems, or undue difficulties for Japanese investment interests, or possible defaults or roll-overs on credits previously extended, or some combination of these factors. Thinking and planning for the long term, the Japanese I talked to had no problem in foreseeing prompt attainment of a role for Japan second only to the United States in economic relations with Latin America. They also freely predicted that a sharply accelerating increase in trade, investment, and other economic ties with Latin America would occur in the immediate future.



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4. "Japan, Inc." is proving remarkably flexible and innovative in its economic dealings with Latin American countries. Examples are the "develop-and-import" projects; the Brazilian export corridor program, including a \$200 million "buyers' credit"; long term loans for infrastructure development, such as contracts for pipelines, railroad improvements, power grids, and ground satellite stations; and other investment and lending operations as described in this report. No longer is there any singleminded focus on boosting Japanese exports; a much more varied and subtle approach is being used by the Japanese conglomerates to achieve not only export earnings but also stable and enduring trade, investment, and other economic relations with the Latin American nations.

5. If anything, and not denying the reality and importance of the coordinating role of the Japanese Government, the Japanese conglomerates seem to be out in front of their government in building close and effective relations with Latin American governments and business firms. A significant level of trade has been achieved with the Caribbean countries, for example, while the Japanese Government has yet to set up resident diplomatic missions in most of those countries. I can also testify, from all of my talks with Japanese private sector representatives, as to their being well-informed and knowledgeable on the entire array of political and business conditions in Latin America. As one Japanese official told me the "administrative guidance" system is really a two-way communications system, and often the Japanese businessmen do most of the talking to the government about what is going on, and what their companies' plans are, in specific countries. I would assert that -- with no disparagement whatsoever intended toward the able and likewise well-informed officials of the Japanese Government -- the Japanese conglomerates are transmitting most of the signals in the government-business communications process with respect to Brazil and many other Latin American countries.

6. I believe Japanese trading companies and other firms are now moving quickly--but at the same time only after deliberate study of business conditions by the Japanese Government and private sector -- to increase their trading, investment, finance and other ties in Latin America. This movement is most striking in Brazil and Mexico, but can be documented in other countries as well. How far they can go (assuming no major change in the booming conditions in Japan itself) will only be limited, I believe, by emergence of some or all of the restraints listed in this report, such as Latin American laws and regulations limiting foreign investors' activities, potential fear on the part of Latinos of Japanese ownership or dominance of important economic sectors in their countries, and reactions of the more volatile Latin American countries to recent and future refusals to extend substantial economic assistance on concessionary terms. One of the other principal limiting factors, also previously discussed, is the likely competitive action of U.S., European and other business interests as the Japanese seek to increase their economic operations in the area.

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7. It seems unlikely in the extreme that any "Ugly Japanese" allegations will arise in Latin America. The Japanese citizens there now, as well as the nisei and sansei, have what I believe is an impeccable reputation for integrity, and they have contributed significantly to the economic progress of the countries in which they reside. Moreover, the caliber of Japanese diplomatic representation in Latin American countries (as I can judge from my 18 years experience in Latin American affairs) has risen, to the point that the Japanese Embassies' knowledge of the countries, language competence, and general effectiveness are quite marked. I have already commented on the extraordinary ability of the Japanese private sector representatives with whom I discussed Latin American matters. Based upon these contacts, I conclude that the Japanese will be extremely careful and correct in their dealings with Latino government and business leaders, and will thereby avoid this current problem of their colleagues in the Far East.

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Footnotes

- 1/ The one exception is the presence of sizable numbers of Japanese citizens and descendants of Japanese emigrants: more than 700,000 in Brazil, reportedly some 60,000 in Peru, and smaller groups in Bolivia and other countries.
- 2/ Latin America's share of Japan's trade has remained fairly constant in recent years at 6 to 7% of the worldwide total; however, this also means that the value of this trade has increased dramatically, in line with Japan's over-all increases in imports and exports. The table in Annex I also shows some interesting shifts in the last three years, with heavy increases in Japan's trade with Brazil and Mexico, and declines in trade with Argentina and Chile.
- 3/ A skeptical observer might also note the fact that the loan was disbursed quite rapidly, in the last month of Japan's fiscal year, and reduced Japan's foreign currency reserves by \$200 million in one fell swoop. A wire service item carried in the April 29 Washington Post quoted the Ministry of Finance as stating that Japan's gold and foreign exchange reserves had dropped a record \$1.3 billion in April (to \$16.8 billion), following another major drop in March. The Japanese are, perhaps, "squirreling away" some of their reserves in preparation for their dealings with the U.S. and other advanced countries in coming months.
- 4/ This assistance is not to be confused with grant technical cooperation projects, such are provided by many governments and multilateral aid agencies.
- 5/ As Annex I shows, Panama accounts for the largest value of Japan's exports to any one Latin American nation; this is due to the flourishing activity of the free trade zone, in turn due -- among other factors -- to contraband onward shipments to Brazil, Paraguay and other recipients.
- 6/ I also heard that while the Japanese Government takes a rigid stand against claims beyond 12 miles, many of the fishing boat captains -- who are not covered by guaranteed financial compensation as under the U.S. Fisherman's Protective Act -- pay the required licenses and fees.
- 7/ The privately-sponsored Japan Economic Research Center stated in early 1972 that Japanese net direct investment in Latin American countries was \$84 million in 1960, \$277 million in 1965, and \$513 million in 1969. The Center's projection for 1980, which I believe on the basis of recent statements by Mitsubishi and other conglomerate officials to be on the conservative side, is \$4.9 billion in net direct investment in Latin America.

ANNEX I, JAPAN TRADE WITH LATIN AMERICA 1970 - 72
(in millions of dollars) ^{1/}

	EXPORTS						IMPORTS					
	Value ^{2/}			1972 Ratio to Total Exports	% Increase From Prior Year		Value ^{2/}			1972 Ratio to Total Imports	% Increase From Prior Year	
	1970	1971	1972		1971	1972	1970	1971	1972		1971	1972
TOTAL TRADE	\$19,318	\$24,019	\$28,591	100%	24.3%	19.0%	\$18,881	\$19,712	\$23,471	100%	4.4%	19.1%
LATIN AMERICA ^{3/}	1,187	1,592	1,980	6.9	34.1	24.4	1,373	1,338	1,418	6.0	-2.5	5.8
MEXICO	94	102	151	0.5	8.6	47.7	151	171	202	0.9	12.8	18.4
PANAMA	132	236	413	1.4	78.7	75.0	2	3	3	0.0	52.0	92.9
CUBA	39	54	51	0.2	37.1	-5.6	111	128	145	0.6	15.6	13.6
VENEZUELA	123	153	183	0.6	24.8	19.8	23	17	30	0.1	-26.6	78.0
PERU	53	69	71	0.2	30.8	2.3	210	174	185	0.8	-17.3	6.6
CHILE	31	44	32	0.1	39.7	-26.1	212	241	180	0.8	13.5	-25.4
BRAZIL	167	235	395	1.4	41.1	68.1	218	223	249	1.1	2.4	11.8
ARGENTINA	96	165	126	0.4	72.5	-23.9	154	120	78	0.3	-22.2	-24.7

^{1/} Source: Table on worldwide and regional trade prepared by Customs Bureau, Ministry of Finance.

^{2/} Import values are overstated compared to export values, since import CIF and export FOB values are used.

^{3/} Includes Puerto Rico, Canal Zone, U.S. Virgin Islands, and British possessions.

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ANNEX J-1
PRINCIPAL JAPANESE, U.S. AND OTHER SOURCES
INTERVIEWED IN CONJUNCTION WITH THE PREPARATION OF THE
CASE STUDY

In Washington:

Mr. Sumio Ono, First Secretary, Japanese Embassy
Mrs. Mary Manzoli, INR/RAA, Department of State
Mr. Thomas C. Hubbard, FE/J, Department of State
Mr. Dennis H. Morrissey, ARA/ECP, Department of State

In Tokyo:

Mr. John Lloyd III, First Secretary, American Embassy
Mr. Kazuo Nukazawa, Assistant Director of International Economic
Affairs Department, Keidanren (Federation of Economic Organi-
zations)
Dr. Hiroya Ichikawa, Staff Economist, Keidanren International
Economic Affairs Department
Mr. Kojiro Sugimura, Assistant Manager, Overseas Enterprises
Department, International Division, Ishikawajima-Harima
Heavy Industries, Ltd.
Mr. Shozo Otagawa, Chief of Operations Office, Overseas
Enterprises Department, IHI International Division
Mr. Shinji Tomie, Manager for South America, Toyota Motor
Sales Co., Ltd.
Mr. Takeshi Eguchi, General Manager, Brazil Department,
Mitsubishi Corporation
Mr. Yutaka Ota, Brazil Department, Mitsubishi Corporation
Mr. Yoshimi Watanabe, Manager, America and Oceania Section,
Marketing and Coordination Department, Mitsubishi Corporation
Mr. Ichiro Miyazaki, Manager (Latin America), Marketing and
Coordination Department, Mitsubishi Corporation
Mr. Nobuo Okuchi, Director-General, Central and South American
Affairs, Ministry of Foreign Affairs
Mr. Rikiwo Shikama, Head of the First Central and South America
Division, Ministry of Foreign Affairs
Mr. Jutarō Sakamoto, Head of the Second Central and South America
Division, Ministry of Foreign Affairs
Mr. K. Jinushi, Section-Chief, International Affairs Section,
Japan Chamber of Commerce and Industry
Mr. Fernando Guimaraes Reis, First Secretary, Brazilian Embassy
Mr. Manuel Alvarez Luna, Commercial Counselor, Mexican Embassy
Mr. Tsutomu Hirabayashi, Director, First Overseas Market
Division, Bureau of International Trade, Ministry of International
Trade and Industry
Mr. S. Komori, Manager of America Section, International Department,
Marubeni Corporation
Mr. T. Nagata, America Section, International Department, Marubeni
Corporation
Mr. Toshihiko Ezaki, Assistant Chief Manager, International
Division, The Mitsubishi Bank, Ltd.
Mr. Atsuteru Miyawaki, Assistant Manager, Finance and Investment
Department, International Division, The Mitsubishi Bank, Ltd.

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MEMORANDUM

In Rio de Janeiro:

Mr. William B. Miller, Deputy Principal Officer, American
Consulate General
Mr. James Ferrer, Jr., Economic Officer, American Consulate
General

In Sao Paulo:

Mr. Frederic L. Chapin, Consul General, American Consulate
General
Mr. Ronald B. Casagrande, Commercial/Economic Officer, American
Consulate General
Mr. Kiyoshi Ibaragui, Vice President, Marubeni Brasil Ltda.
Mr. Kiyoshi Matsuyoshi, General Superintendent for South America,
C. Itoh and Company, Ltd.
• Dr. Yuichi Tsukamoto, Professor of Finance, Escola de Adm. de
Empresas, Fundacao Getulio Vargas

In Lima:

Mr. Edward R. Cheney, Chief of Economic Section, American
Embassy
Mr. Kyoza Hara, President of the Board of Directors, Mitsubishi
Peru S.A. (and Vice President of local Japanese Chamber of
Commerce)
Mr. McCann, Commercial Attache, British Embassy

In Panama:

Mr. M. Gordon Daniels, Counselor for Economic Affairs,
American Embassy

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ANNEX III

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